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In Bourgeoisie we trust, but which one? Islamism, development, and the “finance curse”

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Abstract

The rise of Islamic financial institutions in the past decades stimulated studies that investigated their link to Islamic parties. Some perspectives viewed them as the financial wing of Islamic extremism. Others argued that the rise of an Islamic bourgeoisie, especially if integrated into the global economy, promotes moderation and liberalization among Islamic groups. This study investigates the relationship between the type of Islamic capital and Islamic moderation. In addition, it analyzes how state institutions can shape the trajectories of Islamic movements through economic policies. In this regard we compare and contrast production based capitalism which empowers industrial actors versus finance based capitalism which may not support the industry but strengthen financial elites. We find that production based development is more likely to promote mutual wins among Islamic and other actors and facilitate moderation than finance based economies which may promote zero-sum games and polarization.

Keywords: Islamism; development; liberalism; production; finance

1. Introduction

The rise of Islamic economic actors and financial institutions in the past decades stimulated academic studies that investigated their link to Islamic political parties.² Some perspectives portrayed the Islamic economic sector as the financial wing of Islamic extremist movements. Others argued that the rise of an

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² We define Islamic parties as parties who claim to promote an Islamic political system. Our definition of Islamic economic actors includes Islamic businessmen associations, banks, and investment companies, which claim to follow the principles of Islamic economics and to finance an Islamic society through their economic activities.

Islamic bourgeoisie, especially if integrated into the global liberal economy, is a democratizing development as it would promote liberal practices and induce moderation among Islamic groups.³

Nevertheless, both of the above approaches have limitations. Islamic economic actors can have a significant influence on Islamic parties and tracing their interests and motives helps predicting the agenda of Islamic groups. However, an automatic association of the bourgeoisie class with a certain ideological position can be misleading. In contrast to mainstream theories that portray the bourgeoisie class as a democratic agent, Bellin (2000) argues that the capital's support for liberal democratic principles has a "contingent" nature. Similarly, recent studies on the Islamic business sectors suggested that their political preferences vary according to their particular interests (Demiralp 2009). Evidence shows that in some cases, Islamic economic actors acted as liaisons between secular parties and Islamic groups, which helped moderating and integrating Islamic groups. Yet in other cases, they used their financial resources to mobilize resistance to secular governments and finally in some cases they helped overthrowing the governments to establish Islamic authoritarian regimes (Stiansen 2004, Demiralp 2010).

This study investigates the relationship between the type of Islamic capital and Islamic moderation. In addition, it analyzes how state institutions can shape the trajectories of Islamic movements through economic policies. In this regard we compare and contrast production based capitalism, which empowers industrial actors versus finance based capitalism, which may not support the industry but strengthen financial elites. We find that production based development has a higher chance to promote mutual wins among Islamic and other actors, and thereby facilitate moderation, rather than finance based economies which often promote zero-sum games and polarization.

The study will compare and contrast Islamic economic actors in five predominantly Muslim nations: Turkey, Indonesia, Malaysia, Egypt, and Sudan. The cases vary in the type of Islamic capital: while in Turkey, Malaysia, and Indonesia a significant Islamic entrepreneurial class developed, in Sudan and Egypt Islamic capital concentrated on the banking sector. In all of these cases Islamic economic and political movements rose in the context of secular political systems, although the level of secularism varied.⁴

This analysis suggests firstly, that major shifts in the economic structure, such as economic crises, new economic partnerships, discovery of oil, or foreign borrowing, have significant impacts on Islamic and other business sectors and consequently upon Islamic political parties. The way governments react to these economic shocks is crucial as the policies they adopt may integrate or alienate, oppress or promote, as well as fragment or unify Islamic opposition groups. Second, the economic activities of Islamic entrepreneurial sectors, such as production-based versus other financial activities, impact the chances for partnerships and cooperation between these actors and secular or non-Islamic groups, from the government and the private sector. Finally, the financial power of the government itself is an important factor that shapes the government's relationship with this business sector.

The study will suggest that the existence of a significant Islamic entrepreneurial class that contributes to the industrial sector and the simultaneous availability of government policies that benefit both secular and Islamic producers such as, export-led growth strategies or redistributive policies, increase chances for

³ We define Islamic moderation as Islamic actors' postponing or abandoning of some of their ideals, such as establishing Sharia based institutions, and acceptance to work with non-Islamic or secular institutions and actors.

⁴ In the case of Sudan secularism ended in 1983 when president Numeiry installed the Sharia law.

mutual alliances between Islamic and other, non-Islamic or secular, groups. This environment facilitates moderation and adaptation among Islamic actors.

On the other hand, in cases where there is a mobilized Islamic business class which primarily concentrates on the finance sector, without necessarily supporting the industry, this economic group is most typically perceived as a threat by non-Islamic governmental and social groups, rather than a contribution to national development. Under the circumstances, long term alliances rarely occur between these groups. Further, elitist policies that favor particular business elites and alienate Islamic economic actors contribute to the gap between Islamic financial groups and other governmental and societal sectors. In these cases, depending on government capacity, two outcomes are likely to follow. In some cases the threatened government manages to repress or fragment these financial groups before they rise further. In other cases where the government lacks the capacity to do so, the financial groups start controlling the state. In either case, mutual wins do not take place and moderation is not likely to happen.

2. Islamic Moderation and Businessmen

Modern Islamic parties include moderate and radical forms which differ in their goals and methods as well as the relationships they build with secular or non-Islamic institutions, parties, or individuals. While radical groups refuse to negotiate their demands, moderates are willing to postpone or abandon some of their Islamic demands when some of their other interests are harnessed. Similarly, radicals typically object to having anything to do with secular or non-Islamic institutions and actors, while moderates may adapt to, as well as form alliances with them. While more moderate and liberal interpretations of Islamism became more influential in some nations including Turkey, Malaysia, and Indonesia, they remained weak in others, such as Egypt and Sudan.

Moderation happens in cases when both of the conflicting parties are strong, there are possibilities for mutual gains, and parties can make partners from their opponents. Moderation is less likely and polarization seems to follow when actors do not need partners to improve their position, when their opponents are not strong enough to force them to concessions, or when there is a zero-sum game between the two sides and actors feel threatened by each other's existence (Waterbury 2001, Przeworski 1991).

Islamic business groups can play a particularly important role in the moderation of Islamic parties for two reasons. First, a closer look at the mobilization of both radical and moderate Islamic parties reveals the active involvement of Islamic economic groups. As Olson (1971) argued, small but highly mobilized interest groups can have a significant political influence and Islamic politics is not an exception. In fact, such mobilization can be particularly high in clientalistic political contexts as is the case in many parts of the Muslim world. We know that in most developing countries, including Muslim nations, the state has enough autonomy to make policy decisions to favor certain actors and groups. In these cases, a businessman's career depends on his success in establishing inroads to state bureaucracy to secure favors and incentives (Camp 1989, Buğra 1994). Hence, Islamic businessmen, just like their secularist or non-Islamic counterparts who operate in these clientalistic environments, have been highly politicized. In addition to their forceful political involvement, their possession of large amounts of financial resources also makes Islamic businessmen influential actors in Islamic political parties. As a result, in almost all cases where Islamic businessmen mobilized as an interest group, they played leading roles in Islamic parties. Thus, understanding the motives and capabilities of Islamic economic actors can play a critical role in gauging the direction that Islamic parties may take, such as moderation versus radicalization,

cooperation versus confrontation, exclusivizing versus pluralization, etc. Finally, another reason that makes businessmen important actors for moderation is their pragmatic character. We know that entrepreneurial groups respond strongly to economic incentives. Hence, they may alter or abandon some of their Islamic demands and accept policies that harness their economic interests. Therefore, they may support alliances between Islamic and secularist or non-Muslim groups that promote mutual economic interests (Demiralp 2009).

3.State-led development, economic downturns, and ways out: opportunities for Islamic mobilization

In all of the five cases in this study, Islamic mobilization formed as an opposition movement which attracted the disadvantaged groups of state-led development projects. Provincial and small-to-medium sized business groups have been a major constituency who reacted to the forced competition with state-protected, urban-based business elites. Islamic groups mobilized the discontent against state policies and constituted an alternative (Islamic) center of power outside of the state. In the absence of a democratic social context suitable for a civil society to flourish, the economic sector which enjoyed relatively more freedom enabled Islamic economic actors to mobilize against the state-big bourgeoisie alliance.

The major turn in the careers of Islamic economic actors in all of our cases was preceded by economic openings and the rolling back of the borders of the state. The economic openings were quickly followed by the rise of Islamic economic institutions and posed a challenge to established elites. In other words, in almost all cases, the rise of Islamic economic institutions overlapped with the rise of a new economic class that challenged the dominant groups in the society (Utvik 2005, pg.203). These economic changes that enabled the rise of Islamic economic actors typically followed economic downturns which could not be overcome with prevailing economic policies. These economic openings not only enabled the formation of an Islamic economy but also influenced the future of the relationships between the state and Islamic actors, and the long term chances for moderation and peaceful coexistence.

An analysis of the relationship between economic opportunities and Islamic movements suggests that economic environments that create prospects for both Islamic and other actors to increase their incomes and thereby provide mutual wins produce moderation and democratization. On the other hand, economic environments that promote zero-sum games do not promote negotiation, cooperation, or moderation but lead to the domination of the stronger. More specifically, production-based economic policies have a higher chance to produce mutual wins and facilitate long term partnerships among Islamic and other economic groups, create employment opportunities that bring different economic groups together, and promote moderation among Islamic actors. In addition, redistributive policies which shift revenues to disadvantaged economic sectors, typical constituencies of Islamic parties, produce more harmonious class relations in the long run. In contrast, aid or finance based economies have a higher risk of producing zero-sum games. Similarly, elitist policies which continue favoring business elites push Islamic economic actors to alternative partners and allies to survive. The outcome then often includes polarization, repression, or revolution.

Production versus aid or finance based economic recovery plans produce different political outcomes regarding Islamic politics for several reasons. Firstly, the economic activities of Islamic industrialist groups are more likely to stimulate long term correspondence or partnerships with non-Islamic actors. Compared to Islamic banks, investment companies and other financial institutions, Islamic producers deal

with a higher number of employees and clients and they benefit from cooperative relations with their non-Islamic counterparts, including state officials. These relationships are more likely to create experiences of coexistence and tolerance. As a result, there are higher chances to meet around mutual interests, such as economic openings, removal of tariffs, export incentives, tax exemptions, etc. In addition, the investments and commitments they make are more likely to be long-term oriented because of the nature of their economic activities. This makes them more dependable parties in the eyes of the state or other secular groups including their partners, clients, or employees. As a result, governments are often pleased by their contribution to local development and they are more likely to tolerate and even support these groups through economic incentives such as loans or tax exemptions. These economic opportunities that are rewarding for both Islamic and non-Islamic industrialists tend to decrease existing grievances and facilitate cooperation both between different entrepreneurial groups as well as between the government and these economic actors.

However, when there are low returns for production and when Islamic economic activism concentrates on the finance sector, the chances for economic or political rapprochement between Islamic and other governmental and social sectors declines. This has reasons that derive both from the Islamic character of these institutions and the nature of financial activism. First, unlike conventional banks, Islamic banks do not lend money to secular governments because government bonds typically operate with interest which Islamic financial institutions avoid. This limits the extent of partnerships that can form between these institutions and secular governments. Second, Islamic financial actors, like their non-Islamic counterparts, can afford to act independently from broader social groups. There are few circumstances where they need to interact, bargain, or work with social groups that include secularist or non-Muslim actors. As footloose capitalists without any commitment to their national markets they can work with whoever is more likely to return their loans or offer better deals (Jickling and Hoskins 2011; Hudson 2006, 2010). They typically prefer short term investment opportunities such as carry trade, the bond or the stock markets, or longer term alternatives such as insurance or real estate sectors (Hudson 2010). When they support a certain industry or government, their support tends to be fluid as they may easily shift their investments to a safer, more profitable market or sector, in the case of a crisis. They do not need to engage in long term commitments and do not see high returns in partnerships (Hudson 2010). Thus, they can act independently from the state or other groups in the society. This increases the probability for zero-sum games to occur between Islamic financial groups and their rivals or opponents. Under the circumstances, two type of outcomes are likely to follow. Either, the governments feel threatened by the power of Islamic financial elites and they start harassing them. This happens when the government has access to alternative economic resources and is not dependent on the capital controlled by these financial elite. However, if the government is financially too weak, if other significant economic groups to balance the Islamic finance sector do not exist, and if there are interest-free mechanisms that allow Islamic banks to lend to the government, then governments may gradually surrender to the dictates of these economic elite. These scenarios do not foster moderation or liberalization inside the Islamic sector in particular or in the broader society in general. In contrast polarization and authoritarianism is likely to increase as a result. The following section will compare and contrast how Turkish, Malaysian, Indonesian, Egyptian, and Sudanese states chose to deal with the economic crises that took place between 1970s-1990s and consider how their policies shaped the different types of relationships that formed between Islamic economic actors and the state establishment.

4. Economic crises and industry-based solutions: evidence from Turkey, Malaysia, and Indonesia

4.1 The case of Turkey

Economic openings which paved the way for the rise of Islamic actors in Turkey emerged in the 1980s when the balance of payment crisis brought an end to the Import Substitution Industrialization (ISI) economy (Waterbury 1992). The ISI had prevailed through the 1960s and 1970s, in line with the development project initiated by the founders of the young Turkish Republic. A major goal was to produce a native industrial class to replace the non-Muslim entrepreneurial elite which had left the country after the collapse of the Ottoman Empire. The ISI had contributed to the rise of a state-dependent and Istanbul-based business elite through massive state protection. At the same time it had alienated the Anatolian petite merchants whose major business activity was based on the imports that they sold to the domestic market. These discontented Anatolian merchants, mobilized by the then Turkish Union of Chambers (TOB) chair and future Islamic leader Necmettin Erbakan, took the first steps in the mobilization of a provincial, Islamic bourgeoisie which would change Turkey's face about 40 years later (Shambayati 1994). Despite their religious rhetoric, it was clear from the beginning that the grievance had strong class-based roots (Buğra 1998). They mainly targeted the state establishment's favoritism of a selected Istanbul based industrial elite, represented by the Turkish Industrialists and Businessmen Association (TÜSİAD). The economic openings in the 1980s and the promotion of manufactured exports allowed an Islamic industrialist sector to rise and mobilize around the Independent Industrialists and Businessmen Association (MÜSİAD) and the Erbakan led Welfare Party (RP), who soon became major actors in Turkish political economy (Buğra, Demir 2004).

However, it is important to note that despite the geographic, faith and class-based differences between MÜSİAD and TÜSİAD, they both had stakes in Turkey's industrial development. The second round of economic liberalization that took place during Turkey's rapprochement with the European Union (EU) in the second half of the 1990s eventually brought the MÜSİAD and TÜSİAD closer. MÜSİAD members who initially avoided a competition with EU companies and therefore opposed integration with EU markets eventually changed their agenda when they became more competitive, adjusted their product standards according to EU regulations, and discovered the advantages of the integration (Demiralp 2009). Thus, the EU accession eventually created a consensus among these previously polarized groups by providing new export venues, and thus raised awareness of the fact that they were all in the same boat. This shift in the economic interests of Islamic business groups also played a key role in the transformation of the Islamic party. Finally, in 2001, a group of Islamic politicians, led by Recep Tayyip Erdoğan, split from the mainstream Islamic group to establish the pro-Western, neo-liberal and moderate Justice and Development (AK) Party. With 22 out of 50 businessmen in its executive board, business groups were highly represented in this party. The AKP policies since the party came to power in 2002 prioritized harnessing the interests of this constituency (Demiralp 2009). In other words, Turkey's transition to an export-based economic model not only opened the door to the rise of an Islamic movement but it also ironically prepared the ground for the moderation and liberalization of Islamism, by creating a context for mutual gains and cooperation.

4.2 The Case of Malaysia

In response to the economic downturns in mid 1980s and 1997, Malaysian government passed export-based economic reforms. Such reforms were preceded by periods during which governments had been

heavily intervening in the economy. Mahathir's New Economic Policy (NEP) in the 1970s sought rapid industrialization and closing of the economic gap between Malay and Chinese groups, which was inherited from colonialism. These policies aimed at eliminating the overlapping of ethnic identity with economic function and geographic location. With this purpose, the United Malays National Organisation (UMNO)-led government redistributed resources from the Chinese economic elite to the Muslim Malay population (Chin 2000). Through a number of incentives, the NEP sought to create a Malay (bumiputra) bourgeoisie from a population consisting of peasants and bureaucrats, and thereby reduce the overlapping of economic and ethno-religious cleavages in the Malaysian society (Camroux 1996, Sundaram 1989).

The government favors to the Muslim business groups in Malaysia played an important role in securing their loyalty to the government. These policies limited Malays' support for more radical Islamic parties, such as the Pan-Malaysian Islamic Party (PAS) which made the best out of the Malay discontent of capitalism, Westernization, and socio-economic inequalities in the society. While these redistributive policies violated market rules and received reactions from Chinese business groups, in the long run they decreased the structural foundation of social grievances. Thus, they paved the way for economic stability and growth. The major success of these policies lied in the government's ability to guarantee mutual wins for both groups such that while Chinese resources were to some extent redistributed to Malays it was not a zero-sum game. In other words, the development strategies were broadly acceptable (Sundaram). As Case (2004) points out, particularly for the *crème de la crème* of the Chinese business groups who had special connections, the NEP did not cause a critical loss. As their income continued to rise, Chinese business elite tolerated the government. Without the support of the business elite, the discontent among lower economic classes in the Chinese community did not pose a major challenge to the government (Case 1993, Jesudason 1989).

The major turn in the Malay economy took place in the 1980s. Following the falling of oil and commodity prices, the government shifted its economic plan, adopting policies that promoted the export of manufactured goods. While the government heavily relied on foreign borrowing, this capital was used to promote production. Sundaram points out that the 1980s were characterized by an increasing convergence of business interests and political power, as manifested by the fact that in 1987 half of the delegates of the UMNO were businessmen. In response to the 1997 crisis, the government followed the same pro-business strategy that promoted non-oil exports. In both waves of liberalization Chinese and Muslim Malay business groups were able to avoid a zero sum game. The economic openings provided mutual gains for both ethnic groups. The rolling back of the frontiers of the state and thus, the decline of Malay favoritism, unsurprisingly pleased the Chinese elite. Further, the decline of foreign capital made wealthy Chinese entrepreneurs more valuable at home (Sundaram). On the other hand, the new Malay manufacturers also supported government policies which made new incentives available to exporters, to whom now the Malays belonged as well. Although they were often short of capital, the Islamic banks which rose since 1983 responded to their demands and supported the industrial activities of these small and medium size businessmen (Al-Harran 1999). In sum, the NEP had changed the old "bargain" and paved the way for the formation of a Malay industrial class, and the alliance between this industrial group and the Islamic financial institutions enabled the rise of the Malay bourgeoisie. Finally, the new economic reforms increased the income of this bourgeoisie class, along with their Chinese counterparts. Malay-Chinese business alliances, also called "Ali Baba" partnerships, which formed during this period, constitute an example of these mutual wins where the Chinese provided capital and skills, and the Malays secured political connections. Consequently, both Chinese and Malay producers supported the government in protecting domestic capital to compensate losses of the capital flight that took place during economic crises, particularly in 1997 (Case 2004).

Overall, the Islamic discontent towards the modernist policies of the government remained moderate in Malaysia and a major factor was the governments' ability to coopt the Islamic business groups, a major constituency, through economic incentives (Ali 2004). Even when the state influence in the economy declined, the manufacture based, export-led growth strategy enabled the Islamic entrepreneurs to continue making significant revenues along with the Chinese business elite. Under the circumstances, Islamic business groups remained largely supportive of the mainstream political institutions. This allowed the government to break the alliance between radical Islamic parties as the Pan-Malaysian Islamic Party (PAS) and moderate Islamic groups as the Malaysian Islamic Youth Movement (ABIM), since the 1970s (Camroux 1996). Thanks to the government's effective policies, the PAS, which had made the best out of Malay grievances over Chinese control over the economy, was marginalized, controlling only peripheral districts as Kelantan and Terengannu (Case). Meanwhile, the modernist and moderate Malaysian Islamic Youth Movement (ABIM) increased its influence nation-wide (Stark 2005).

4.3 The Case of Indonesia

Indonesian political economy after its independence from the Dutch, particularly during Sukarno's Guided Economy between 1959 and 1966, constitutes a typical case of state-led development. The period was characterized by policies that promoted speedy development through state support as well as a desire to cultivate an indigenous bourgeoisie to challenge the domination of Dutch and Chinese business elites. While nationalization of former Dutch enterprises curbed the Dutch control in the economy, it was more difficult to challenge the Chinese business elites. Thanks to the fact that particularly in the countryside, Chinese and indigenous economic activities were intertwined, economic nationalism in Indonesia could not entirely alienate the Chinese economic groups (Somers 1964, Kian Wie 2006). While the import-led growth strategies favored indigenous entrepreneurial groups, Chinese were able to protect their interests. Under the circumstances, "Ali-Baba" partnerships proliferated, resembling their Malaysian counterparts and bringing together indigenous (pribumi) entrepreneurs who could obtain state favors and Chinese businessmen who had skills, expertise, capital, and international connections (Suryadinata 1992).

Resembling Turkish and Malaysian cases, state control over the economy in Indonesia declined with economic problems. Suharto's New Order since the 1960s aimed at fixing the economic problems inherited from the previous era, by reversing the previous statist policies and encouraging the private sector (Hollinger 1996, Elson 2001). While the rise of oil prices in the 1970s increased the government's financial resources and stimulated a return to interventionism and ISI policies, the end of the oil boom in 1982 brought an end to these statist strategies.

The boundaries of the state establishment rolled back once again with the economic crises in the 1980s which was followed by growth projects based on non-oil exports. This economic environment which promoted the manufacturing sector benefited both indigenous and Chinese entrepreneurs (Grizzel 1988). Despite anti-Chinese sentiments among certain segments of the society, the government pursued a pragmatic approach, realizing that alienating Chinese business elite would curb economic growth and promoted the economic activities of both groups (Suryadinata, Kian Wie). Under the circumstances, both Chinese and indigenous business groups could make revenues and keep partnerships.

It is important to note that the partnerships between indigenous and Chinese business groups also included the financial sector. Indonesian Islamic banks that rose since 1992 and constituted a major credit alternative for the indigenous, Muslim small and medium size entrepreneurs did not avoid lending money

to Chinese creditors. Thus, despite some indigenous Muslim groups' criticism of government's toleration of Chinese elites, a mutually winning economic environment for both ethnic groups was present. This environment allowed a mutual escape from the economic downturns following the Asian crisis in the late 1990s. In spite of the Muslim-Chinese grievances in the society and discrimination in social policy, both indigenous and Chinese business groups realized that they needed each other for their long-term interests and acted accordingly (Kian Wie).

While the transition to a neoliberal economy allowed Chinese and Islamic business groups to act and rise together it also led to a split within the Islamic movement. The coalition between major Islamic sects, namely the traditional and provincial based Nahdatul Ulama and the urban based Mohammadiyah, broke due to their diverging economic interests during the transition to the export-led economic model. While the small and medium sized entrepreneurs, a major Mohammadiyah constituency, supported the government, Nahdatul Ulama was left alone in its opposition to the government and eventually announced its withdrawal from politics in 1984.

5. Is there a “finance curse”? The cases of Egypt and Sudan

5.1 The case of Egypt

In parallelism to the previous cases, economic downturns stimulated shifts in Egyptian economic policies as well although the responses to the economic troubles were different. In order to overcome economic difficulties, Egyptian governments relied mostly on Foreign Direct Investment (FDI) and foreign aid, instead of manufactured exports. These economic policies produced a non-cooperative and conflictual relationship between the state and the economic actors, including Islamic economic groups. Under the circumstances, the opportunities for Islamic moderation remained limited.

Gamal Abdel Nasser's nationalization policies in Egypt between the 1950s and 1960s shifted the control of the Suez Canal and other enterprises from British colonial authorities to the Egyptian state, and Anwar Sadat's open door policy (*infitah*) opened them to the access of the private sector in 1974. The open door policy was a response to the economic downturn and primarily aimed to attract Foreign Direct Investment (FDI) to promote particularly the finance, tourism, construction, and petroleum sectors. Little investment was however directed to the industrial sector (Ayman et.al. 2005, Bolbol et. al.2005).

This economic context significantly shaped the prospects of Islamic economic actors. While the Egyptian Islamic movement, most particularly the Muslim Brothers, dates back to the 1930s, its influence in the economic sector increased significantly since the 1970s. One factor was the oil boom and the proliferating job opportunities in oil-rich, Islamic Gulf countries which attracted migrant workers from neighboring countries, including Egypt. A Utvik points out, most of these workers returned to their homes in the 1980s, often with an Islamic worldview which they adopted in these countries and some capital which they wanted to invest. Nevertheless, in the absence of incentives, these small and medium size entrepreneurial actors, had difficulties in solving their credit problem or compete with the state-protected business elites. It was in this economic context when Islamic investment companies and banks were founded to respond to the new social demands. These financial institutions including Faisal Islamic Bank, International Islamic Bank for Investment, or investment companies, such as al-Rayyan and al-Sad among others, made considerable revenues in the early years of the open door policy and increased their resources while the government's economic problems continued due to mismanagement of foreign aid

(Utvik, Zubaida 1990, Gumuscu 2010). Nevertheless, this sector's control over large sums of money discomforted the highly indebted Egyptian government. Further, these institutions' concentration on financial activities as short-term trade financing, currency speculation, or commerce rather than long-term, production-based projects, played a key role in this tension (Moore 1986). Under the circumstances, the government perceived these new Islamic economic actors as a threat to its own power, instead of an ally for the nation's development (Gumuscu). Finally, when the government secured access to capital through alternative resources, such as tourism revenues and foreign aid, it took action against the 'threatening' Islamic financial sector. Through a number of measures to damage the reputation and restrict the activities of the Islamic banks and financial institutions, the government caused them fatal losses (Zubaida, Utvik, and Soliman 2004).

Following the 1980s economic crisis which was triggered by declining oil rents, the government once again tried to overcome the hardships through foreign borrowing, namely US aid and IMF loans, rather than increasing production. Mubarak, who succeeded Sadat placed relatively more importance to production, but it still remained as a limited part of Egyptian economy until the 2000s, also due to the disadvantageous economic context, such as low exchange rate for the Egyptian pound and limited incentives and tax rebates (Abdellatif 2003). This economic environment did not foster harmonious class relations or state-business cooperation in Egypt. Harassed by the government, the Islamic economic groups in Egypt declined to an insignificant state. Parts of this group supported the moderate al-WASAT party, which split from the Muslim Brothers in 1996 (Gumuscu 2010). Others choose to de-emphasize their Islamic identity and approached the Mubarak regime (Gumuscu 2010). Fragmented and weakened, the Islamic business sector remained far from making a major political influence in the Islamic movement or in the broader Egyptian politics. While the Muslim Brothers remained controlled by the agitated middle and lower classes and retained its popularity, the moderate WASAT party failed to become a significant alternative (Takayuki 2007, Hatina 2010, Stacher 2002).

5.2 The case of Sudan

As in the other cases considered by this analysis, economic openings preceded economic and political mobilization of the modern Islamic movement in Sudan. We know that state control over the economy has often been part of the picture in Sudan albeit to different extents, through Numeyri's swings between socialist, pro-Western and pro-Islamic camps, from 1969 to 1985. Yet the increasing economic problems made it impossible for the state to sustain its development projects and the boundaries of the state had to roll back. The beginning of the 1970s, the years prior to the foundation of the Faisal Islamic Bank, was a period of economic downturn. The government was experiencing a major economic hardship as commodity prices fell, nationalization attempts of banks turned to a major failure, and development plans did not bring expected returns and could no longer be sustained due to extreme shortage of funds. Foreign aid and foreign direct investment, although they were abundant, could not cover the state expenses. Nor was the private sector willing to support the development plans as they were alienated by the past nationalization attempts of the government and would only agree to invest in certain sectors as service, housing, handicrafts or traditional agriculture, which were less likely to be taken over by the state. As a result, the state was in deep need to borrow from the domestic sector.

In this context, Prince Faisal's proposal to establish an Islamic bank in Khartum appeared highly positive to the indebted Numeyri government. Numeyri hoped that this could enable him to attract the abundant oil revenues in the Gulf countries as well as the remittances of Sudanese migrant workers in these countries, which could be a solution to the economic hardship. Indeed, the Faisal Islamic Bank

(FIB) enabled the indebted government to win some time to deal with the economic problems by borrowing heavily from this sector between 1973-1977.

Nevertheless, the FIB was not merely an economic institution as it was controlled by the Muslim Brothers, a new Islamic actor in Sudanese politics (Stiansen, Demiralp 2010). Yet, Numeyri did not perceive the FIB-backed Muslim Brothers movement as a threat. For Numeyri, who came to power after a series of military coups, the major challenge was posed by the old and rooted Islamic orders (*tariqa*), namely Khatmiyah and Ansar which traditionally controlled commercial and bureaucratic sectors (Warburg 2006, Collins 1976). Hence, while the government targeted Khatmiyah and Ansar, it did not bother the Muslim Brothers. This cleaned the political and economic arena from competitors and thereby facilitated the rise of the Muslim Brothers.

The FIB, controlled by the Muslim Brothers, provided capital to the Sudanese government but it has not induced development. In fact, it detached the economy further from industrial development as Numeyri relaxed its currency control in order to attract workers' remittances, major clients of the FIB. This created a negative incentive for the exporters and led to a decline in the export-oriented manufacture sectors. Stiansen shows that money borrowed from the FIB by the private sector was typically invested in short-term commercial businesses rather than long-term production based investments. In addition, the capital borrowed by the government was not spent to finance production either but it was invested in consumer goods and housing. Finally, the record rates of corruption, facilitated by the FIB and other state controlled banks added extra burden on the already fragile economy. Despite the major inflow of capital and the dramatic rise of the Islamic and conventional finance sector between 1978-1985, industry and agriculture declined as Sudanese banks' investments remained focused on commerce. As a result, a zero sum game formed between the new FIB-backed Islamic business class who controlled large amounts of capital while the domestic economy suffered from a major hardship and the majority of the population was losing money.

The year the FIB was founded, the government also signed an agreement with the IMF and thus obtained new loans. However, in addition to the controversies that the IMF regulations created in the society, particularly due to the promotion of mechanized agriculture which produced rural discontent, economy continued to worsen due to drought and famine on the one hand and rising inflation rate, the result of excessive money printing, on the other hand. On top of that, by 1983 Western aid started to decline, as a combined result of the high rates of corruption and economic failures as well as the pro-Islamic shift of Numeyri. As the foreign capital started to leave the country, a foreign exchange crisis followed in 1984 which severely hit the import sector. While Numeyri lost power, the Muslim Brothers, backed by the FIB, gradually marched to power. Finally, the economic collapse in 1985 was followed by the fall of Numeyri and in 1989 a Muslim Brother backed military coup, led by General Bashir took over power.

6. Islamic economic actors as partners and rivals

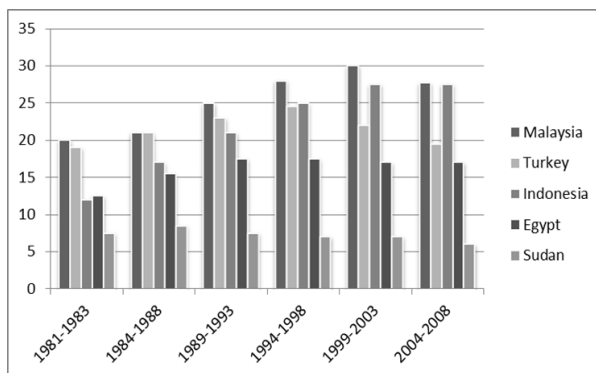
This comparative analysis of Islamic economic actors and their relations with state establishments in five predominantly Muslim nations suggests that economic factors play a significant role not only in the rise of Islamic movements but also in their prospective liberalization. Economic crises often induce economic openings and the rolling back of the borders of the state in the realms of economy. Islamic economic actors, like their secular or non-Muslim counterparts, typically seize these opportunities and

constitute centers of power outside of the state. Thus, the rise of an organized Islamic bourgeoisie class is generally approached positively by the literature as a liberalizing development. However, a comparative analysis of this bourgeoisie class across different Muslim countries shows that they do not always facilitate liberalization or moderation.

This analysis suggests that there is a difference between the moderating impact of production-based economic activities and other financial activities that do not support the industrial sector. The study finds that production based economic openings are more likely to promote mutual wins and thus, more likely to induce moderation and cooperation among Islamic and other groups. On the other hand, finance based economies do not facilitate long term cooperation between different interest groups but they often involve a zero sum game where the stronger side, Islamic or other, takes all.

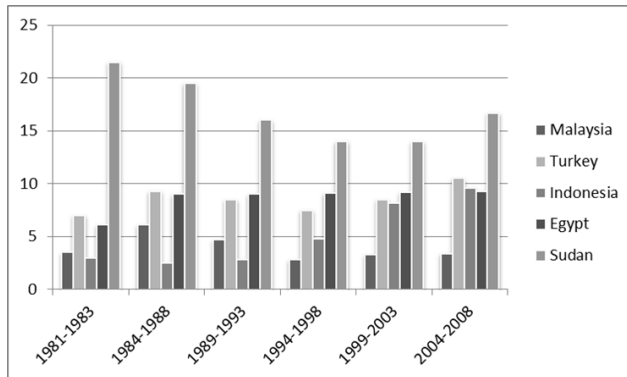
In the Turkish, Malaysian and Indonesian cases more liberal forms of Islam took place as Islamic and other economic groups were able to rise simultaneously. Redistributive policies shifted revenues to disadvantaged groups and thus, decreased grievances. The shift to export-led growth in the 1980s created benefits not only for prevailing economic elites in the society (secularist business elites in Turkey and Chinese business elites in Malaysia and Indonesia) but also for the small and medium size entrepreneurs, the typical constituency of Islamic parties. Figures 1 and 2 show that in cases where liberal forms of Islam developed there is more concentration on production which promotes long-term and broad-based partnerships and increases employment. We claim that the economic opportunities in these cases pulled Islamic business groups closer towards the state and other secular or non-Muslim parties. As a result, moderate Islamic actors dominated Islamic groups and a more suitable environment for coexistence and tolerance developed, despite critical voices.

Figure 1. Manufacturing / GDP (%)



Source: The World Bank (URL: <http://data.worldbank.org/indicator/NV.IND.MANF.ZS>)

Figure 2. Unemployment (% of total Labor Force)



Source: The World Bank (URL: <http://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?page=6>)

The IMF (URL: <http://www.imf.org/external/data.htm>)

In Egypt and Sudan, however, the economic context promoted zero-sum games where the winner that was the state establishment in the case of Egypt, and the Islamic financial elite in the case of Sudan, took all. The Islamic financial group in Egypt declined to a rather insignificant state as a result of state harassment. In Sudan the economic context enabled the Islamic financial sector, politicized through the Muslim Brothers, to rise and gradually march to power until they finally took over the state apparatus through violence.

7. Conclusion

This study suggested that the prospects of the relations between Islamic and other secularist or non-Muslim groups are shaped by the opportunities and constraints faced by the Islamic economic actors, a highly influential constituency in Islamic movements. An economic environment that promotes production can create long term cooperation and mutual wins while finance based activism that does not necessarily support the industry promotes rivalry and increases perceived threats (Hudson 2006). Hence, the chances for an Islamic bourgeoisie class to become part of a broad-based alliance are higher if its activities concentrate on the production sector. Islamic financiers on the other hand, are less likely to act as a moderating, cooperating agent within Islamic movements or in their relations with non-Islamic actors.

The Occupy Wall Street demonstrations that began in the USA in 2011 drew worldwide attention to the social grievances that may result from the imbalanced rise of the finance sector. The demonstrations suggested that unless it supports the industry, the rapid rise of the finance sector can lead to economic instability, political conflict, and social discontent. This study showed that these problems are not only relevant for large economies with oversized financial sectors such as the USA but they apply to smaller economies as well. In fact, this analysis suggests that imbalanced financial sectors may open even deeper scars in politically and economically less advanced parts of the world, as in the Muslim world where political-economic environment is already fragile, when states are in debt, when socio-economic cleavages are deep or even overlap with other religious, ethnic, or regional cleavages. This theoretical framework provides an excellent testing ground for the future empirical studies in the Muslim world and

elsewhere. Future studies on state-business relations should exploit the new data to test these claims formally.

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